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Pentagon Federal Credit Union

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President/CEO

Ms. Cynthia L. Johnson, Director
Cash Management Policy and
Planning Division
Financial Management Service
U. S. Department of the Treasury
Room 420
401 14th Street, SW
Washington, DC 20227

December 16, 1997

Dear Ms. Johnson:

On behalf of the Pentagon Federal Credit Union (PFCU) I appreciate the opportunity to comment on the proposed rule concerning Federal Agency Disbursements.

PFCU is the largest Federal Credit Union serving the financial needs of Army and Air Force personnel throughout the world. PFCU has 19 branches available for its membership to conduct in-person transactions. Additionally, we have 3 major service centers which provides member service through a vast tele-communications network. Members also have access to their account via ATMs, e-Mail and in the near future will have access via the Internet.

The use of direct deposit programs has been a service utilized by the military services and PFCU for many years. PFCU has seen the usage of EFT deposits increase substantially over the years. Currently, PFCU receives approximately 230,000 EFT deposits on a monthly basis.

The proposed rule focuses on those individuals who currently do not maintain an ongoing relationship with any financial institution. These "unbanked individuals" will be required, with certain exceptions, to designate a financial institution or authorized agent to receive their individual Federal payment.

We share the Treasury's goal in the implementation of this program. We believe the two most important of these goals are: ensuring the recipient have access at a reasonable cost and access is convenient.

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Our comments on issues of specific concern are provided as follows.

Section 208.2 (b) Authorized Payment Agent—The definition provides that designation as a payment agent is not limited to financial institutions. While we recognized the need for a broad definition, we recommend that such entities should be required to provide the same consumer protections as financial institutions are required to provide in accordance with Federal Reserve Board Regulation E.

Section 208.5 Access to Account Provided by Treasury—This part provides that Treasury will establish an account for those individuals who have not established an account at a financial institution.

In those circumstances where it is necessary for Treasury to provide an account we recommend that the individual be provided notice of the selection no less than 3 months prior to the effective date of the first payment. Such notice should be accompanied by the forms necessary for the individual to select a financial institution of their own choosing, or alternatively the form to request a waiver of the account requirement.

One of the approaches for accomplishing this section's purpose, it is suggested ". . .Treasury to engage one or more Federally insured financial institutions to act as Treasury's financial agent for the provision of accounts for those individuals. . . " While we have no objection to this general concept, we are extremely concerned with what may be a limited selection process. It appears that the intent is to limit the list of financial institutions to a small number. We recognize the cost benefits of administering the program through a small number of financial institutions, however, this creates an inequity where only very large nationally based financial institutions will be eligible to participate. Such a selection process would exclude virtually all credit unions, as well as community banks and even large regional banks could be excluded from participation.

Another inequity exits with the suggested selection process unique to credit unions. The very basic premise of a credit union is the limitation of establishing accounts only for its members. Accordingly, the selection process referenced above or the alternative bidding process for specifically defined geographic areas will preclude credit unions from fully participating in the program. The bidding process needs to recognize this limitation and permit credit unions to offer account services to consumers on an individual basis.

The following is in response to specific questions as stated in the proposed rule.

1. Should Treasury make available a debit card-based account to individuals who are required to receive Federal payments by EFT and who do not have an account of their own with a financial institution?

We believe that debit card access would be an added feature of any basic account provided by a financial institution. However, debit card access should not be required at the present time. Although debit card access is a fast growing service many financial institutions, both large and small, do not offer this service. The Treasury Department should not provide the debit card service.

2. Should the cost of the account to the recipient be the most important factor for selecting the account structure and/or the account providers, or should the account structure be designed to meet other objectives even if the cost to recipients is increased as a result? If the latter, which objectives? What is an appropriate standard by which to weigh tradeoffs between increased costs and additional account features?

The cost and features of the account and accessibility are the critical attributes for acceptance by the consumer. We view both to be equally important.

3. Should the account be structured to provide only a basic withdrawal service at the lowest possible cost, with additional service charges for additional features, or should the account offer a range of services at a fixed monthly cost, even if greater than the cost of a basic account?

We agree that there should be a basic account, allowing withdrawals at the lowest cost possible or at no cost. Financial institutions should be permitted to charge nominal fees for any added service, however, such fees should not be established by regulation.

4. How many withdrawals should be included the base price of the account? Should the account terms address the charges imposed by automated teller machine owners other than the account provider?

An appropriate number of withdrawals for the basic account may be in the range of 6 to 8 per month. The account terms should address surcharges at ATMs owned by an institution other than the account provider. The consumer must be informed of this. This is critical for financial institutions that may bid for accounts in a geographic area and does not maintain an adequate network of ATMs to serve the consumers. In this instance, the bidding institution's disclosed cost of the account for the consumer would not reflect the potential true cost to the consumer.

5. Should the account structure provide for additional electronic or nonelectronic deposits within the basic monthly service charge? If so, what number of deposits.

We agree that the basic account should permit additional deposits whether electronic or nonelectronic. Further, there should be no limit or charge for additional deposits.

6. Should the account provide for some number of third-party payments, such as payments for rent or utility bills? If so, how many third party payments should be provided for and should they be priced in the basic monthly service charge?

The availability of third party payments could be an essential feature of the account. The number of such payments depends upon the classification of the account. If the basic account is a "transaction account" as defined by Federal Reserve Board Regulation D, 12 CFR 204.2 (e) then unlimited transactions could be permitted. However, the financial institution should be permitted to establish a reasonable limit and permitted to assess a service charge for transfers exceeding the limit. However, if the basic account provided is classified as a "savings deposit" as provided in 12 CFR 204.2 (d) (2), then the account is limited by Regulation D to no more than 3 third party transfers per month.
A possible solution would be to revise the definition of savings deposit or establish another account type that would permit a larger number of third party transfers solely for accounts which have been established pursuant to Section 208.5 of the proposed rule.

7. Should the account include a savings feature? How would such a feature operate? Would additional free withdrawals or the capability to accept deposits other that the Federal payment act to foster savings by the recipient?

We agree that the basic account provided should permit savings by the consumer and the account should receive a rate of return comparable to other similar accounts provided by the financial institution.

8. How important is a broad geographic reach to meeting the access objective that most recipient will want? How should Treasury best meet access needs in underserved area?

It is our view that having a broad geographic reach is probably not an essential element for these basic accounts. However, accessibility by ATM does provide access to accounts practically anywhere.

On behalf of the Pentagon Federal Credit Union I appreciate your consideration of the above comments. We strongly believe that all types and sizes of financial institutions must be allowed to participate in this initiative. Furthermore, we are confident that the credit union community is willing to provide the basic account service and even beyond what is viewed a basic account service for the consumers who currently are "unbanked". If you wish to discuss any of these comments I am available at a mutually agreeable time.

Very truly,

Ronald L. Snellings,
President/CEO